



Audit Committee – Special Meeting
Thursday, October 18, 2012
City Hall – Room 326C

Committee Members Present: Council Members Diane Hofstede (chair) and Barbara Johnson; Minneapolis Park & Recreation Board Representative Mark Oyaas; and Citizen Member Stephanie Woodruff (quorum 4).

Absent: Council Member Betsy Hodges and Citizen Member Darrell Ellsworth.

Also Present: Paul Aasen, City Coordinator; Susan Segal, City Attorney; Casey Joe Carl, City Clerk; Magdy Mossaad, Internal Auditor; and Kreg S. Weigand and Ryan Verstraete, representatives of KPMB, who facilitated the meeting.

Agenda & Synopsis

- 1. Evaluate the focus and scope of the Internal Audit function, as established pursuant to Ordinance No. 2009-Or-190, and consider any modifications that may be desired, to be formulated into a recommendation to the full City Council for its consideration.**

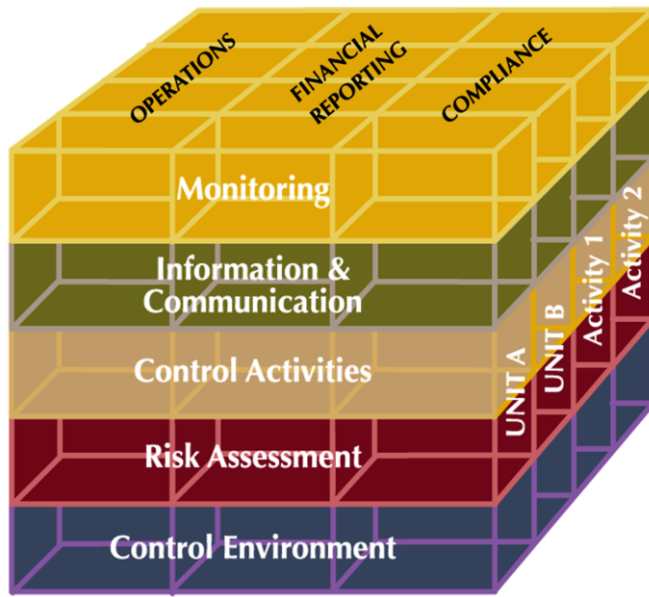
The facilitators summarized various the roles and responsibilities prescribed for the Audit Committee, and compared these to industry best practices, which centered on assuring proper internal control and mitigation of risk associated with enterprise strategy, financial and operational matters, and compliance with legal and regulatory requirements. Referencing the ordinance (Section 17.90), the facilitators said that the Audit Committee had a fiduciary responsibility to exercise watchful and reasonable care in supervising the City's internal audit function while also overseeing and monitoring financial controls and reporting practices, internal controls, and compliance with applicable laws and regulations related to financial controls and related matters.

The facilitators indicated the incorporation of the term "internal controls" within the scope of the duties of the Audit Committee expanded the scope of its oversight to encompass more than financial operations. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the term internal controls, as it is used within the scope of internal audit, is defined as "a process designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations."

The roles and responsibilities of the Internal Auditor, prescribed under sections 17.80, 17.110, and 17.120 of the ordinance, establish that the Internal Auditor shall:

- Conduct financial, fiscal compliance, and financial procedure audits of all departments, boards, and commissions;
- Conduct audits of individual audit transactions, contracts, and franchises;

- Audit the financial and accounting systems and procedures administered by the Finance Department and other departments, boards, and commissions;
- Implement a comprehensive audit plan to review and evaluate the adequacy and effectiveness of the internal system of financial controls; and
- Conduct programmatic audits when requested by the Mayor, City Council, Chief Financial Officer, or departments, boards, or commissions, subject to the approval of the Audit Committee.



NOTE: Graphic provided by KPMG, LLP ©2012.

This diagram (left) illustrates how the oversight responsibilities of the Audit Committee, supported by the duties prescribed for the Internal Auditor, as defined under the existing ordinance, and in conformance with industry best practices, provide a comprehensive and overlapping series of controls to address risk across the enterprise.

Broadly, this illustration shows focus in three main areas: operations, financial reporting, and compliance. These are the areas that are identified in the COSO definition of “internal control.” Within each of these defined areas, the activities of the audit function are shown working across each unit (department) and activity (functions/services).

The ordinance states that these duties prescribed for the Internal Auditor are to be carried out in a manner that adheres to the international standards for the professional practice of internal auditing established by the Institute of Internal Auditing (IIA). Like the inclusion of the term “internal controls” with respect to the duties of the Audit Committee, the requirement for adherence to IIA professional standards creates a set of implied expectations with respect to the scope, authority, and operation of the internal audit function.

Discussion focused on the historical context surrounding the drafting of the original ordinance, primarily in terms of whether or not it was the intent of the City Council, at that time, to limit the scope of the audit function to financial controls or to expand that scope to incorporate a broader focus on risk, internal controls, compliance, and similar matters expounded upon by the facilitators. The Audit Committee and staff assembled, with help from the KPMG facilitators, reviewed the existing Audit Ordinance, section by section, to provide direction on clarifications that would help define and focus the scope of the audit function within the City enterprise. The primary changes that were agreed to by the Audit Committee included:

- 1.) (Section 17.80) Identifying the professional standards for internal audit as promulgated by the IIA as “professional guidelines” to be referenced by the Internal Auditor, rather than mandating strict adherence to those standards; and
- 2.) (Section 17.90) Modifying the membership provisions of the Audit Committee such that the chair of the Council’s standing committee on Ways & Means/Budget is not an ex officio member, and

providing instead that the Council President shall appoint three members of the City Council and designate the chair of the Audit Committee.

The Audit Committee agreed to retain the current verbiage regarding “internal controls” within the scope of responsibilities prescribed for the Audit Committee. The City Clerk and City Attorney will draft potential amendments capturing the consensus of the Audit Committee on these points for formal consideration by the full Audit Committee at its regular meeting in November 2012, which will then form the basis of any recommendations to be submitted to the City Council.

Other issues that remain to be addressed, as identified during the Audit Committee’s workshop conducted on August 29, 2012, include:

- 1.) Consider processes that engage department “auditees” in an earlier process to help define and scope and objectives of audits that are proposed as part of the annual Audit Plan – Chair Hofstede and Mr. Mossaad to take lead on this item;
- 2.) Integrating the internal audit function more effectively into the enterprise and provide administrative sponsorship – City Coordinator Aasen to take the lead on the following series of items:
 - a. Develop plan to build enterprise risk awareness and management training, including a possible follow-up session for the Audit Committee on this topic with the KPMG facilitators;
 - b. Develop procedures to review audit reports, prior to submission, to provide input to Internal Audit related to findings and recommendations with respect to content, scope and scale of recommendations, separation of audit from management, presentation, and other factors;
 - c. Build internal awareness of the audit function and support among departments/management; and
 - d. Establish an internal escalation process whereby the City Coordinator arbitrates disputes between the Internal Auditor and management.
- 3.) Conduct a periodic evaluations – Chair Hofstede and Mr. Mossaad to take the lead on these items:
 - a. Develop procedures to assure a quarterly report to the Audit Committee highlighting the progress of audits and management responses/plans; and
 - b. Determine the timing for the quality assessment reviews of the Internal Audit function, as required by the Institute of Internal Auditors.

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With no further business to be presented, the workshop adjourned at 4:38 p.m. A complete copy of the PowerPoint presentation created by KPMG and referenced in the workshop is on file with the Office of City Clerk.

Respectfully submitted,

Casey Joe Carl, *City Clerk*